Social Security and Other Entitlements

General Mandatory Spending

Budget Includes $77 Billion in Gross Mandatory Spending Cuts — The budget cuts spending on selected mandatory programs by $77.2 billion over five years through a combination of service reductions and fee increases. The largest spending cuts affect Medicare ($35.9 billion) and the Pension Benefit Guaranty Corporation ($16.7 billion). Other cuts include $5.0 billion from agriculture commodity programs, $4.9 billion from Medicaid, $4.0 billion from allowing oil drilling in the Arctic National Wildlife Refuge (with an additional $4.0 billion distributed to the State of Alaska), $2.0 billion from the refundable portions of the child and earned income tax credits, and $706 million from restricting eligibility for food stamps.

Mandatory Spending in the President's Budget, 2007-2011
(billions of dollars)

Program Cuts/User Fees	-77.2
Social Security Private Accounts	81.6
Other Program Increases	16.8
Net Change	
Including SS Private Accounts	21.2
Excluding SS Private Accounts	-60.4

***Some Cuts Offset by Spending Increases* —** Part of the Medicaid cut is offset by $3.2 billion in new spending, and part of the food stamp cut is offset by $589 million in new spending. Other spending increases include $81.6 billion for Social Security private accounts, $7.5 billion for the health tax credit, $2.1 billion for grants to states for the chronically ill, $1.6 billion for Temporary Assistance to Needy Families, and $560 million for flood insurance. Total mandatory spending increases in the budget other than Social Security private accounts amount to $16.8 billion. Including Social Security private accounts, the net effect of the service reductions, new fees, and new spending initiatives in the budget is to increase mandatory spending by $21.2 billion over five years relative to current law. Excluding Social Security private accounts, the President's budget on net reduces mandatory spending by $60.4 billion over five years relative to current law.

Social Security

The budget includes the President's plan to divert up to one-third of workers' Social Security payroll contributions into private accounts and impose steep cuts to traditional Social Security benefits. The President announced his plan in 2005 and traveled around the country to promote it, but the plan failed to win the support of the American public or Congress.

***The President's Social Security Plan Worsens Deficits and Increases the Debt for Decades* —** Private accounts, by themselves, do nothing to reduce the long-term budget challenges associated with the aging of the American population. They simply make the budget situation worse. The diversion of payroll taxes into private accounts adds $712.1 billion to the deficit over the next ten years. This ten-year figure understates the true fiscal effect of the plan because the budget assumes implementation of the plan will not begin until 2010. The plan's drain on the budget continues long after the current ten-year budget window. Even with significant benefit cuts, the government will have to increase its borrowing by nearly $5 trillion over the first 20 years of the plan to pay Social Security benefits to current beneficiaries and to those who will start drawing benefits in the near future. Under the President's plan, the level of federal debt held by the public would be higher with the private accounts than without them for the next six decades.

The President's Plan Imposes Steep Benefit Cuts On Workers — The plan includes two separate benefit reductions. All workers age 55 or younger today will see their traditional Social Security benefits reduced on a sliding scale based on their earnings, regardless of whether they opt for a private account. The sliding-scale benefit cut, which falls most heavily on middle-class workers, is structured such that each succeeding generation of workers will experience a larger benefit cut than the generation that preceded it. Over time, Social Security benefits for newly retired workers will replace a gradually smaller share of pre-retirement income. Workers opting for private accounts will experience an additional benefit cut: for each dollar diverted to the private account, a worker's traditional Social Security benefit is reduced by one dollar plus interest. A worker 25 years old today who earns average wages and opts for the private account will receive a traditional Social Security benefit under the plan that is about half of what he or she is scheduled to receive under current law. Proceeds from his or her private account might or might not make up the difference, depending on how the worker's investments perform.

The President's Plan Worsens Social Security's Financial Problems — The Social Security Trustees project that the system will run cash surpluses until 2017 under current law, and that a combination of trust fund assets, interest income, and dedicated revenues will cover full benefits until the trust funds are exhausted in 2041. (CBO estimates that the trust funds will not be exhausted until 2052.) The President's plan for private accounts speeds up the date of cash imbalance to 2011, and it accelerates the date of trust fund exhaustion from 2041 to 2030.

Another Commission on Entitlements

The President in his State of the Union Address acknowledged that Congress last year declined to take up his plan for partially privatizing Social Security. He went on to propose the creation of a bipartisan commission to examine the effect of the aging U.S. population on Social Security, Medicare, and Medicaid. The President already convened one commission on Social Security, in his first year as president. While that commission included Democrats as well as Republicans, the commission did not have free rein to consider all possible solutions to Social Security's financial shortfall. The President instructed commission members from the start that they must endorse private accounts and could not increase payroll taxes. As such, the commission's deliberations were skewed from the beginning. The President also imposed preconditions on last year's tax reform panel.

There have been numerous bipartisan commissions over the last dozen years created to examine the future cost pressures faced by the major entitlement programs (see accompanying table). These commissions were charged with recommending policy changes to make the programs fiscally sustainable. Other commissions have been charged with reforming the tax code to make it more fair and efficient. However, Congress has shown little interest in acting on the recommendations of these commissions.

Recent Commissions Charged With Reforming Entitlements and Taxes

	Date
President's Advisory Panel on Federal Tax Reform	2005
Department of Health and Human Services Medicaid Commission	2005-06
President's Commission to Strengthen Social Security	2001
National Bipartisan Commission on the Future of Medicare	1998-99
National Commission on Retirement Policy*	1997-98
Bipartisan Commission on Entitlement and Tax Reform	1994-95

*Sponsored by a private entity, the Center for Strategic and International Studies, and chaired by Members of Congress. The Commission's recommendations were introduced as legislation.